

ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

Arizona Corporation Commission

DOCKETED

MAY 20 2013

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
INC. FOR A HEARING TO DETERMINE THE
FAIR VALUE OF ITS PROPERTY FOR
RATEMAKING PURPOSES, TO FIX A JUST AND
REASONABLE RETURN THEREON AND TO
APPROVE RATES DESIGNED TO DEVELOP
SUCH RETURN

Docket No. E-04100A-12-0353

**SWTC'S NOTICE OF FILING
REBUTTAL TESTIMONY**

Notice is given that Southwest Transmission Cooperative, Inc. has filed the Rebuttal
Testimony of Gary E. Pierson.

RESPECTFULLY SUBMITTED this 20th day of May, 2013.

GALLAGHER & KENNEDY, P.A.

By

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Original and 13 copies filed this
20th day of May, 2013, with:

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AZ CORP COMMISSION
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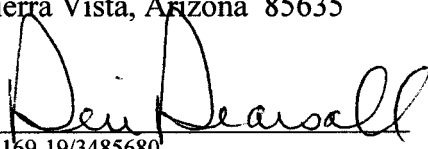
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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
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FAIR VALUE OF ITS PROPERTY FOR
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REASONABLE RETURN THEREON AND TO
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SUCH RETURN

Docket No. E-04100A-12-0353

Rebuttal Testimony of

Gary E. Pierson

on Behalf of

Southwest Transmission Cooperative, Inc.

May 20, 2013

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1 **Q. Mr. Pierson, are you the same Gary E. Pierson who sponsored direct testimony for**
2 **Southwest Transmission Cooperative, Inc. (“SWTC”) in this matter?**

3 A. Yes, I am.
4

5 **Q. Have you reviewed the direct testimonies of Staff witnesses Randall E. Vickroy,**
6 **Dennis M. Kalbarczyk and Richard Mazzini filed on April 4, 2013 in this matter?**

7 A. Yes, I have. SWTC believes Staff’s positions set forth in the testimonies of Messrs. Vickroy
8 and Kalbarczyk will provide adequate revenue requirements for SWTC when combined
9 with four additional adjustments that I am proposing in this rebuttal testimony. Therefore,
10 in order to narrow disputed issues and reduce complexity, for rebuttal purposes, SWTC
11 accepts the Rate Base Adjustments proposed by Mr. Kalbarczyk at pages 12-14 of his direct
12 testimony. Further, SWTC also accepts the pro forma adjustments proposed by Mr.
13 Kalbarczyk at pages 18-19 of his direct testimony — subject to certain comments made
14 below. SWTC agrees with the major conclusions in Mr. Mazzini’s engineering analysis and
15 I discuss below some initial steps SWTC is taking in response to some of his suggestions for
16 future improvements. Finally, in response to Mr. Kalbarczyk’s rate design testimony, I
17 provide additional information regarding the Cooperative’s proposed Transmission Revenue
18 Adjustor (“TRA”), including a proposed tariff and a TRA Plan of Administration. We hope
19 these additional materials will assist Staff in recommending approval of the TRA.
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COST OF CAPITAL — SWTC REBUTTAL POSITION

Q. Mr. Vickroy filed direct testimony on Staff's behalf summarizing his evaluation and recommendations regarding cost-of-capital issues for the SWTC rate filing. Please provide the Cooperative's response to Mr. Vickroy's testimony.

A. SWTC agrees with Mr. Vickroy's conclusions on rate sufficiency, equity levels and revenue requirements. SWTC further agrees with Mr. Vickroy's Debt Service Coverage ("DSC") analysis and supports his proposed 1.35 DSC as appropriate for setting rates.

Q. Mr. Vickroy suggests the use of updated cost of long-term and short-term debt as of December 31, 2012 to calculate SWTC's cost of debt. Please provide the Cooperative's response to Mr. Vickroy's testimony.

A. Referring to page 7 of Mr. Vickroy's testimony, the Central Bank of Cooperatives/CFC's debt was paid off on February 1, 2012 and that payoff has already been reflected in the adjustment to interest expense made by SWTC in its August 2012 filing. As Mr. Vickroy suggests, Exhibit GEP-3 does provide the cost of capital for the test year as adjusted, and as of December 31, 2012 and March 31, 2013. However, SWTC continues to believe that the interest expense adjustment proposed in its original filing and accepted by Mr. Kalbarczyk should be used.

1 **RATE BASE — SWTC REBUTTAL POSITION**

2 **Q. Have you reviewed Staff's testimony on original cost rate base and its position on fair**
3 **value for this proceeding?**

4 A. Yes, I have. As I indicated, SWTC accepts Staff's proposed rate base of just under
5 \$97.7 million, as shown in Mr. Kalbarczyk's Table 11 at page 20 of his direct testimony, as
6 SWTC's fair value rate base.

7
8 **OPERATING INCOME — SWTC REBUTTAL POSITION**

9 **Q. What is SWTC's position regarding operating income?**

10 A. Also referring to Table 11 of Mr. Kalbarczyk's direct testimony, SWTC accepts Staff's
11 proposed test year revenues of \$33.6 million, its operating expenses of \$24.4 million, the
12 electric operating income (margins) amount of \$9.2 million and the proposed net margin of
13 \$4.4 million. However, SWTC does propose four additional rebuttal adjustments that I
14 summarize below and which collectively add about \$355,000 of operating expenses to the
15 income profile. These adjustments result in rebuttal proposed test year revenues of about
16 \$34 million and operating expenses of \$24.7 million. SWTC's rebuttal adjustments do not
17 impact Staff's proposed electric operating income (margins) of approximately \$9.2 million
18 or its net margin of slightly less than \$4.4 million. For ease of reference, my Exhibit GEP-4
19 provides a summary and comparison of SWTC's original rate filing, Staff's direct testimony
20 and SWTC's rebuttal positions.

1 **Staff's Direct Adjustment — Lobbying Expense in Association Dues**

2 **Q. Mr. Kalbarczyk proposes an adjustment to SWTC's association dues so as to adjust**
3 **out the lobbying expense portion of those dues. Please describe that adjustment.**

4 A. As discussed at page 19 of Mr. Kalbarczyk's testimony, the effect of the adjustment reduces
5 operating expenses and gross revenues by \$37,449 and has no impact on margin.

6
7 **Q. Please describe the Cooperative's position on Mr. Kalbarczyk's adjustment.**

8 A. The lobbying and advocacy activities which the Grand Canyon State Electric Cooperative
9 Association and the National Rural Electric Cooperative Association undertake benefit
10 SWTC's member owners/ratepayers. They assure that our members' voices are heard on
11 local as well as national matters of concern. SWTC believes that these expenditures are
12 both a necessary and a very important cost of doing business. However, given the fact that
13 Staff's positions generally are so closely aligned with those of SWTC, we accept the
14 adjustment in order to narrow disputed issues.

15
16 **Staff's Comments on SWTC's Rate Case Amortization Expense**

17 **Q. Have you reviewed Mr. Kalbarczyk's comments on SWTC rate case amortization**
18 **expense at page 17 of his direct testimony?**

19 A. Yes, I have. He is correct that SWTC does not propose to establish a regulatory asset to
20 collect rate case expense and accepts Staff's characterization of this adjustment, instead, as a
21 normalization adjustment. We further agree that the adjustment should be based upon more
22 timely updated cost information. In that regard, SWTC will furnish an updated rate case
23 cost estimate to Staff in early June. It will include (1) actual incurred expenses through
24

1 May, plus (2) an estimate of the additional expenses necessary to process this case to
2 decision issuance by the Commission.
3

4 **SWTC Rebuttal Adjustments**

5 **Q. Please summarize the rebuttal adjustments that SWTC is proposing.**

6 A. We propose four adjustments – two of which increase and two of which decrease expenses.
7 My Exhibit GEP-4 at page 4 reflects the four pro forma adjustments to revenues and
8 expenses that we are proposing on rebuttal:

9 1. Western Area Power Administration Wheeling Contract Rate Increases – SWTC has
10 several contracts with the Western Area Power Administration (“Western”) under which it
11 receives network and point-to-point transmission service. The Parker Davis network service
12 and point-to-point transmission service rates increased on October 1, 2012, which caused a
13 \$16,863 and \$378,240 increase in SWTC expenses on an annual basis, respectively.

14 Further, the Intertie point-to-point transmission service rates were increased on May 1,
15 2013, resulting in an additional \$204,000 increase in SWTC expenses annually.

16 2. Southern California Edison Contract Rate Increases – SWTC also has a point-to-
17 point transmission service contract with Southern California Edison (“SCE”). The SCE
18 point-to-point rates increased on January 1, 2013 and that has caused a \$249,376 increase in
19 expenses annually.

20 3. Western Intertie, Mead Substation Facility Use Charge – In the course of responding
21 to Staff data requests, SWTC discovered that an adjustment should have been made (but
22 was overlooked in its August 2012 filing) to reflect the September 1, 2011 termination of the
23 Western Intertie, Mead Substation Facility Use Charge. Therefore, SWTC proposes to
24

1 remove from its expense profile the \$153,710 of facility use charges that were included in
2 test year expenses for the January to August 2011 period.

3 4. SWTC Teamwork's Incentive Pay – Finally, also during the process of responding
4 to Staff's requests for data, SWTC discovered that the Teamwork's Incentive Payments,
5 which were recorded in 2011, had not been removed from expenses as part of our payroll
6 adjustment. In order to remain consistent with Staff's position in prior cases that incentive
7 pay should be excluded from expenses for ratemaking purposes, SWTC proposes to remove
8 the \$340,000 of Teamwork's incentive pay that was recorded in 2011 and was inadvertently
9 included in our filing last year.

10
11 **SWTC Operating Income**

12 **Q. Have you prepared exhibits that summarize SWTC's current positions and**
13 **requests?**

14 A. Yes, I have. As I mentioned before, Exhibit GEP-4 summarizes SWTC's original rate
15 filing, Staff's direct testimony and SWTC's rebuttal positions. In support of this exhibit, we
16 have developed rebuttal Schedules A through H, copies of which are being delivered to
17 Staff. As reflected on page 1 of Exhibit GEP-4, SWTC proposes the Commission authorize
18 a reduction in its revenues by approximately \$12.4 million, which is slightly less than Staff's
19 proposed revenue reduction of \$12.8 million. Page 2 of Exhibit GEP-4 compares Staff's
20 and SWTC's rate base positions. Its page 3 details the operating income recommendations
21 and its page 4 summarizes our proposed rebuttal adjustments.

1 **ENGINEERING ANALYSIS — SWTC REBUTTAL POSITION**

2 **Q. Mr. Mazzini filed direct testimony on Staff's behalf which summarized his**
3 **engineering analysis and his conclusions concerning the "used and useful" nature of**
4 **facilities which SWTC has recently added to its system. Please respond.**

5 A. SWTC agrees with the major conclusions set forth in Mr. Mazzini's report (attached as
6 Exhibit RAM-2 to his direct testimony) that (1) all SWTC property placed in service should
7 be considered "used and useful" for ratemaking purposes, (2) SWTC's maintenance
8 practices "conform to industry standards" and we employ a state-of-the-art maintenance
9 management system and (3) our reliability performance is generally good.

10
11 **Q. Did Mr. Mazzini note any areas for potential improvement?**

12 A. He did. Specifically, at page 2 of his report, Mr. Mazzini identified three areas for SWTC's
13 consideration. These areas were cost estimating practices, the use of available
14 benchmarking data in relation to operating and maintenance cost performance and continued
15 monitoring of the human error component in reliability performance. His conclusions and
16 observations are being reviewed by the Cooperative's senior management and engineering
17 personnel for further process improvements or refinements. For example, management is
18 actively investigating transmission study options for the purpose of benchmarking O&M
19 and capital costs. To further assist in the analysis and prevention of outages, SWTC has
20 recently added a new position of Operation Engineer. The Operation Engineer is assigned
21 to analyze each outage and make recommendations (if applicable) to prevent further
22 outages. SWTC's Operation Engineer has experience in relay coordination, relay
23 interrogation, relay schemes and settings.

RATE DESIGN — SWTC REBUTTAL POSITION

Q. Have you reviewed the direct rate design testimony Mr. Kalbarczyk filed on Staff's behalf on April 22, 2013?

A. Yes, I have. SWTC agrees with the rate design that Mr. Kalbarczyk has proposed, although we suggest including the four rebuttal adjustments. In that regard, Exhibit GEP-5 summarizes SWTC current rates, its filed rates, Staff's proposed rates and SWTC's proposed rates on rebuttal. My Exhibit GEP-6 contains a proof of revenue as well as a summary by rate class reflecting SWTC's rebuttal positions.

Q. Mr. Kalbarczyk also discusses the SWTC proposed TRA at page 9 of his rate design testimony. Please provide the Cooperative's response.

A. Mr. Kalbarczyk notes that Staff requires additional information in order to respond to SWTC's request for a TRA. In that regard and to facilitate consideration of the proposal by Staff, the Administrative Law Judge and the Commission, SWTC has prepared a TRA Tariff which is attached as Exhibit GEP-7. We have also prepared a TRA Plan of Administration which is attached as Exhibit GEP-8. Finally, in preparing the TRA Tariff, we also identified some language changes to SWTC's Network Transmission Service ("NTS") Tariff, which clarify how network rates are calculated as a function of monthly revenue requirements and also clarify how the TRA will work to adjust the NTS rates. Accordingly, attached as Exhibit GEP-9 is a revised form of the NTS Tariff. We apologize for the delay in providing these additional TRA materials to Staff and its consultants and hope they will facilitate review and approval of our TRA request.

1 **Q. Does this conclude your rebuttal testimony?**

2 A. Yes, it does.

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EXHIBIT GEP-3

Southwest Transmission Cooperative, Inc.

Cost of Long Term and Short Term Debt

Line No.	Description	Col. 1	Col. 2	Col. 3
		Debt Outstanding \$	Interest Rate %	Annual Interest \$
1	<u>As of December 31, 2011 - As Adjusted</u>			
2	Long Term Debt:			
3	FFB Debt (1)	\$ 96,155,252	4.786%	\$ 4,601,990
4	CFC Series 1994A Bonds	6,515,426	1.000%	65,154
5	NRUCFC	13,478,935	3.210%	432,674
6	Regulatory Asset	-		(91,000)
7	Subtotal	116,149,613	4.312%	5,008,818
8	Short Term Debt	-	-	-
9	Total	<u>\$ 116,149,613</u>	4.312%	<u>\$ 5,008,818</u>
10				
11	<u>As of December 31, 2012</u>			
12	Long Term Debt:			
13	FFB Debt - (2)	\$ 94,287,644	4.733%	\$ 4,462,905
14	CFC Series 1994A Bonds	6,189,655	0.650%	40,233
15	NRUCFC	6,595,181	3.356%	221,334
16	Regulatory Asset	-		(91,000)
17	Subtotal	107,072,480	4.327%	4,633,472
18	Short Term Debt	-	-	-
19	Total	<u>\$ 107,072,480</u>	4.327%	<u>\$ 4,633,472</u>
20				
21	<u>As of March 31, 2013</u>			
22	Long Term Debt:			
23	FFB Debt - (3)	\$ 104,521,349	4.485%	\$ 4,687,682
24	CFC Series 1994A Bonds	6,189,655	0.600%	37,138
25	NRUCFC	6,315,410	3.358%	212,046
26	Regulatory Asset	-		(86,250)
27	Subtotal	117,026,414	4.145%	4,850,616
28	Short Term Debt	-	-	-
29	Total	<u>\$ 117,026,414</u>	4.145%	<u>\$ 4,850,616</u>
30				
31	(1) Balance reflects 4th Quarter debt service payment made on January 3, 2012.			
32	(2) Balance reflects 4th Quarter debt service payment made on January 1, 2013.			
33	(3) Balance reflects 1st Quarter debt service payment made on April 1, 2013.			

EXHIBIT GEP-4

Southwest Transmission Cooperative, Inc.

Comparison of Increase in Gross Revenue Requirement

Test Year Ended December 31, 2011

Line No.	Description	Col. A Company As Filed Position	Col. B Staff Direct Position	Col. C Company Rebuttal Position
1	<u>Summary of Revenue Increase Proposed:</u>			
2	Proposed Revenue Decrease	\$ (12,757,213)	\$ (12,794,662)	\$ (12,439,893)
3	Revenues in Test Year - Present Rates	\$ 44,022,391	\$ 44,022,391	\$ 44,022,391
3	Revenue Increase Percentage	-28.98%	-29.06%	-28.26%
4				
5	<u>Pro Forma Statement of Operations</u>			
6	<u>with Proposed Rates:</u>			
7	Operating Revenues	\$ 33,677,073	\$ 33,639,624	\$ 33,994,393
8	Operating Expense	24,430,165	24,392,716	24,747,485
9	Electric Operating Margins	9,246,908	9,246,908	9,246,908
10	Interest & Other Deductions	5,170,450	5,170,450	5,170,450
11	Operating Margins	4,076,458	4,076,458	4,076,458
12	Non-Operating Margins	307,780	307,780	307,780
13	Net Patronage Capital or Margins	\$ 4,384,238	\$ 4,384,238	\$ 4,384,238
14				
15	<u>Times Interest Earned Ratio:</u>			
16	Net Patronage Capital or Margins	\$ 4,384,238	\$ 4,384,238	\$ 4,384,238
17	Interest on Long Term Debt	5,008,818	5,008,818	5,008,818
18	Total	\$ 9,393,056	\$ 9,393,056	\$ 9,393,056
19	Times Interest Earned Ratio	1.88	1.88	1.88
20				
21	<u>Debt Service Coverage Ratio:</u>			
22	Net Patronage Capital or Margins	\$ 4,384,238	\$ 4,384,238	\$ 4,384,238
23	Depreciation & Amortization	4,033,584	4,033,584	4,033,584
24	Interest on Long Term Debt	5,008,818	5,008,818	5,008,818
25	Total	\$ 13,426,640	\$ 13,426,640	\$ 13,426,640
26				
27	Interest on Long Term Debt	\$ 5,008,818	\$ 5,008,818	\$ 5,008,818
28	Principal Payments	4,936,841	4,936,841	4,936,841
29	Debt Service	\$ 9,945,659	\$ 9,945,659	\$ 9,945,659
30	Debt Service Coverage Ratio	1.35	1.35	1.35
31				
32	<u>Return on Fair Value Rate Base:</u>			
33	Electric Operating Margins	\$ 9,246,908	\$ 9,246,908	\$ 9,246,908
34	Rate Base	\$ 99,009,871	\$ 97,658,808	\$ 97,658,808
35	Return on Fair Value Rate Base	9.34%	9.47%	9.47%
36				
37	<u>References:</u>			
38	Column (A): Company Original Filed Schedules			
39	Column (B): Staff Direct Testimony Schedules			

Southwest Transmission Cooperative, Inc.
Comparison of Increase in Gross Revenue Requirement
Test Year Ended December 31, 2011

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF DIRECT POSITION	(C) COMPANY REBUTTAL POSITION
1 Plant in Service	\$ 176,519,426	\$ 176,519,426	\$ 176,519,426
2 Less: Accumulated Depreciation	<u>(80,394,632)</u>	<u>(81,745,695)</u>	<u>(81,745,695)</u>
3 Net Plant in Service	96,124,794	94,773,731	94,773,731
<u>LESS:</u>			
4 Advances in Aid of Construction (AIAC)	0	0	0
5 Contributions in Aid of Construction (CIAC)	0	0	0
6 Less: Accumulated Amortization	<u>0</u>	<u>0</u>	<u>0</u>
7 Net CIAC	0	0	0
8 Total Advances and Contributions	0	0	0
9 Member Advances	0	0	0
<u>ADD:</u>			
10 Working Capital	2,885,077	2,885,077	2,885,077
11 Plant Held for Future Use	0	0	0
12 Deferred Debits	0	0	0
13 Total Rate Base	<u>\$ 99,009,871</u>	<u>\$ 97,658,808</u>	<u>\$ 97,658,808</u>

References:

Column (A): Company Schedule B-1, Page 1

Column (B): Kalbarczyk Direct Testimony

Southwest Transmission Cooperative, Inc.
Comparison of Increase in Gross Revenue Requirement
Test Year Ended December 31, 2011

OPERATING INCOME - TEST YEAR, STAFF ADJUSTED AND COMPANY RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR AS ADJUSTED	[C] COMPANY REBUTAL TEST YEAR ADJUSTMENTS	[D] COMPANY REBUTAL TEST YEAR AS ADJUSTED	[E] COMPANY REBUTAL REVENUE REDUCTION	[F] COMPANY REBUTAL RECOMMENDED
1	<u>REVENUES:</u>						
2	Network Transmission Service	\$ 27,418,547	\$ 27,418,547	\$ -	\$ 27,418,547	\$ (7,727,762)	\$ 19,690,785
3	Point-to-Point	16,603,844	16,603,844	-	16,603,844	(4,712,131)	11,891,713
4	Total Electric Revenue	44,022,391	44,022,391	-	44,022,391	(12,439,893)	31,582,498
5	Other Revenue	2,411,895	2,411,895	-	2,411,895	-	2,411,895
6	Total Electric Transmission Revenue	46,434,286	46,434,286	-	46,434,286	(12,439,893)	33,994,393
7							
8	<u>EXPENSES:</u>						
9	Operations & Maintenance	18,374,351	18,336,902	354,769	18,691,671	-	18,691,671
10	Depreciation and Amortization	4,033,584	4,033,584	-	4,033,584	-	4,033,584
11	Property Taxes	2,022,230	2,022,230	-	2,022,230	-	2,022,230
12	Total Operating Expenses	24,430,165	24,392,716	354,769	24,747,485	-	24,747,485
13							
14	Electric Operating Margins	22,004,121	22,041,570	(354,769)	21,686,801	(12,439,893)	9,246,908
15							
16	<u>INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS</u>						
17	Interest on Long-Term Debt	5,008,818	5,008,818	-	5,008,818	-	5,008,818
18	Other Interest & Other Deductions	161,632	161,632	-	161,632	-	161,632
19	Total Interest & Other Deductions	5,170,450	5,170,450	-	5,170,450	-	5,170,450
20							
21	<u>OPERATING MARGINS</u>	16,833,671	16,871,120	(354,769)	16,516,351	(12,439,893)	4,076,458
22							
23	<u>NON-OPERATING MARGINS</u>						
24	Interest Income	181,178	181,178	-	181,178	-	181,178
25	Other Non-operating Income	126,602	126,602	-	126,602	-	126,602
26	Total Non-Operating Margins	307,780	307,780	-	307,780	-	307,780
27							
28	<u>NET MARGINS (LOSS)</u>	\$ 17,141,451	\$ 17,178,900	\$ (354,769)	\$ 16,824,131	\$ (12,439,893)	\$ 4,384,238
29							
30							
31							
32	<u>References:</u>						
33	Column (A): Company Original Filed Schedules						
34	Column (B): Staff Direct Testimony Schedules						
35	Column (D): Column (B) + Column (C)						
36	Column (F): Column (D) + Column (E)						

Southwest Transmission Cooperative, Inc.

Rebuttal Adjustments

Twelve Months Ended December 31, 2011

Description	\$	\$	\$
1. Adjustment to annualize rate increases in Western and SCE Wheeling Contracts:			
Western Area Power Contract Rate Increases:			
Parker Davis PTP Firm Transmission	\$ 378,240		
Intertie PTP Firm Transmission	204,000		
Parker Davis Firm Network Transmission	16,863		
Total		\$ 599,103	
2. Southern California Edison Contract Rate Increases:			
SCE Firm Pt-to-Pt		249,376	
Subtotal		848,479	
3. Western Intertie, Mead Substation Facility Use Charge		(153,710)	
Total Adjustment			\$ 694,769
4. Adjustment to eliminate Teamwork's Incentive Plan			
Salary Accruals:			
Administrative & General Expense			(340,000)
Total Rebuttal Adjustments			<u>\$ 354,769</u>

EXHIBIT GEP-5

Southwest Transmission Cooperative, Inc.

Comparison of Proposed Transmission & Ancillary Service Rates

Test Year Ended December 31, 2011

Line No.	Description	Col. 1		Col. 2		Col. 3		Col. 4	
		Company Current Rates		Company As Filed	Position	Staff Direct	Position	Company Rebuttal	Position
1	Transmission Services:								
2	Firm Network Service - \$ Monthly Rev. Req.*	\$ 2,187,176		\$ 1,570,730		\$ 1,568,836		\$ 1,587,307	
3	Firm Network Service - \$ Annual Rev. Req.	\$ 26,246,111		\$ 18,848,758		\$ 18,826,032		\$ 19,047,686	
4	Firm Network Service - Moh Elec 2 \$ Monthly Rev. Req.*	\$ 2,056,562		\$ 1,251,434		\$ 1,247,255		\$ 1,265,727	
5	Firm Network Service - Moh Elec 2 \$ Annual Rev. Req.	\$ 24,678,748		\$ 15,017,214		\$ 14,967,065		\$ 15,188,718	
6	Firm Point-to-Point Network Transmission (\$/kW)	\$ 3,608		\$ 2,558		\$ 2,555		\$ 2,586	
7	Non-Firm Point-to-Point Network Transmission (\$/kW)	\$ 3,608		\$ 2,558		\$ 2,555		\$ 2,586	
8									
9	Mandatory Ancillary Services:								
10	Sch. 1 - Network - System Control & Load Dispatch - (\$/kW)	\$ 0.245		\$ 0.173		\$ 0.173		\$ 0.173	
11	Sch. 1 - Point-to-Point - System Control & Load Dispatch - (\$/kW)	\$ 0.245		\$ 0.173		\$ 0.173		\$ 0.173	
12	Sch. 2 - Network - Var Support/ Voltage Control - (\$/kW)	\$ 0.067		\$ 0.096		\$ 0.097		\$ 0.097	
13	Sch. 2 - Point-to-Point - Var Support/ Voltage Control - (\$/kW)	\$ 0.049		\$ 0.070		\$ 0.071		\$ 0.071	
14									
15	FERC Optional Ancillary Services - AEPCO								
16	Sch. 3 - Network - Req. & Freq. Resp (\$/kW)	\$ 0.5325		\$ 0.2602		\$ 0.2589		\$ 0.2589	
17	Sch. 4 - Network - Energy Imbalance - Eng In-Kind +/-1.5% (\$/MW)								
18	AEPCO Pays Positive Imbalance	\$ 36.68		\$ 32.63		\$ 32.63		\$ 32.63	
19	Customer Pays Negative Imbalance	\$ 100.00		\$ 100.00		\$ 100.00		\$ 100.00	
20	Sch. 5 - Network - Oper. Reserves - Spinning (\$/kW)	\$ 0.7060		\$ 0.7232		\$ 0.7196		\$ 0.7196	
21	Sch. 6 - Network - Oper. Reserve - Supplemental (\$/kW)	\$ 0.4981		\$ 0.5009		\$ 0.4985		\$ 0.4985	
22									
23	Direct Assignment Facilities								
24	Direct Assignment Facilities - (\$/Mth)	\$ 133,210		\$ 133,210		\$ 133,210		\$ 133,210	
25									
26	* Member Rate: \$ annual rev req /12 x ratio of Memb's Currnt 12Mth avg Load to that of same Sum of Total Members Load.								

EXHIBIT GEP-6

Southwest Transmission Cooperative, Inc.
PROOF OF REVENUE AND SUMMARY BY RATE CLASS
PRESENT AND PROPOSED RATES - REBUTTAL

LINE NO.	CLASS OF SERVICE	REVENUE		PROPOSED CHANGE		RATES		PROPOSED CHANGE	
		PRESENT	PROPOSED	AMOUNT	PERCENT	PRESENT	PROPOSED	AMOUNT	PERCENT
CLASS A MEMBER NETWORK CONTRACTS:									
1.	ANZA	\$ 471,123	\$ 341,910	\$ (129,213)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
2.	DUNCAN	313,972	227,860	(86,112)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
3.	GRAHAM	1,790,296	1,299,278	(491,018)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
4.	MOHAVE 1	5,246,541	3,807,591	(1,438,950)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
5.	MOHAVE 2	1,656,922	1,019,765	(637,157)	-38.45%	\$ 2,056,562	\$ 1,265,727	\$ (790,836)	-38.45%
6.	SULPHUR 1	5,567,185	4,040,293	(1,526,892)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
7.	SULPHUR 2	2,734,641	1,984,621	(750,020)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
8.	TRICO 1	6,551,496	4,754,641	(1,796,855)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
9.	TRICO 2	732,136	531,336	(200,800)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
10.	Class A TOTAL:	\$ 25,064,310	\$ 18,007,293	\$ (7,057,017)	-28.16%				
OTHER FIRM NETWORK CONTRACTS:									
11.	SAFFORD	\$ 803,517	\$ 583,139	\$ (220,378)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
12.	THATCHER	273,053	198,163	(74,889)	-27.43%	\$ 2,187,176	\$ 1,587,307	\$ (599,869)	-27.43%
13.	Total Other Firm Network Contracts	\$ 1,076,569	\$ 781,303	\$ (295,267)	-27.43%				
NETWORK SYSTEM CONTROL & LOAD DISPATCH									
14.	Anza	\$ 21,906	\$ 15,468	\$ (6,438)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
15.	Duncan	15,187	10,724	(4,463)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
16.	Graham	87,765	61,973	(25,792)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
17.	Mohave 1	257,497	181,824	(75,672)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
18.	Mohave 2	76,138	53,763	(22,375)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
19.	Sulphur 1	286,895	202,583	(84,312)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
20.	Sulphur 2	131,369	92,763	(38,606)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
21.	Trico 1	284,606	200,967	(83,639)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
22.	Trico 2	63,455	44,807	(18,648)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
23.	Safford	39,100	27,609	(11,491)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
24.	Thatcher	13,749	9,708	(4,040)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
25.	Total System Control & Load Dispatch	\$ 1,277,667	\$ 902,189	\$ (375,478)	-29.39%				
26.	TOTAL NETWORK (L10 + L13 + L25)	\$ 27,418,546	\$ 19,690,785	\$ (7,727,761)	-28.18%				
P-T-P Network Transmission Rate									
27.	AEP CO	\$ 13,638,240	\$ 9,775,080	\$ (3,863,160)	-28.33%	\$ 3.6080	\$ 2.5860	\$ (1.0220)	-28.33%
28.	Sulphur Springs Firm Point to Point	-	-	-	-	\$ 3.6080	\$ 2.5860	\$ (1.0220)	-28.33%
29.	Mohave	389,664	279,288	(110,376)	-28.33%	\$ 3.6080	\$ 2.5860	\$ (1.0220)	-28.33%
30.	FMI Safford Mine Wheeling	432,960	310,320	(122,640)	-28.33%	\$ 3.6080	\$ 2.5860	\$ (1.0220)	-28.33%
31.	Total P-T-P Transmission	\$ 14,460,864	\$ 10,364,688	\$ (4,096,176)	-28.33%				
P-T-P Network System Control & Load DispatchTransmission Rate									
32.	AEP CO	\$ 926,100	\$ 653,940	\$ (272,160)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
33.	Sulphur Springs Firm Point to Point	-	-	-	-	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
34.	Mohave	26,460	18,684	(7,776)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
35.	FMI Safford Mine Wheeling	29,400	20,760	(8,640)	-29.39%	\$ 0.2450	\$ 0.1730	\$ (0.0720)	-29.39%
36.	Total P-T-P Transmission	\$ 981,960	\$ 693,384	\$ (288,576)	-29.39%				
37.	TOTAL POINT-TO-POINT (L31 + L36)	\$ 15,442,824	\$ 11,058,072	\$ (4,384,752)	-28.39%				
38.	TOTAL FIRM TRANS & SCHED 1 REV (L26 + L37)	\$ 42,861,370	\$ 30,748,857	\$ (12,112,513)	-28.26%				
DIRECT ASSIGNMENT FACILITIES									
39.	Trico	\$ 1,598,521	\$ 1,598,521	\$ -	0.00%	\$ 133,210	\$ 133,210	\$ -	0.00%
40.	Other Direct Assignment Facilities	77,180	77,180	-	-				
41.	Total Direct Assignment Facilities	\$ 1,675,701	\$ 1,675,701	\$ -	-				
OTHER SYSTEM CONTROL REVENUE									
42.	Other Customers	\$ 154,811	\$ 109,315	\$ (45,495)	-29.39%				
43.	CAWCD Adjustment	(35,600)	(25,138)	10,462					
44.	Total Other System Controls	\$ 119,211	\$ 84,177	\$ (35,033)	-29.39%				
45.	OTHER OPERATING REVENUE	\$ 696,543	\$ 696,543	\$ -					
SPECIAL CONTRACTS - OTHER									
46.	AEP CO	\$ 37,833	\$ 27,117	\$ (10,717)	-28.33%				
47.	Mohave	178,275	127,777	(50,498)	-28.33%				
48.	Avra & Silverbell	9,731	9,731	-	0.00%				
49.	Sulphur Springs	25,321	18,148	(7,172)	-28.33%				
50.	FMI - Safford Mine	690,212	494,703	(195,509)	-28.33%				
51.	TEP Point to Point	78,028	55,926	(22,102)	-28.33%				
52.	Other Misc	22,408	16,061	(6,347)	-28.33%				
53.	Mohave- Power Factor Adj.	16,526	16,526	-	0.00%				
54.	Trico - Power Factor Adj.	23,125	23,125	-	0.00%				
55.	Total Special Contracts - Other	\$ 1,081,460	\$ 789,114	(292,346)	-27.03%				
56.	TOTAL REVENUE (L38 + L41 + L44 + L45 + L55)	\$ 46,434,286	\$ 33,994,393	\$ (12,439,893)	-26.79%				

EXHIBIT GEP-7

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

NETWORK TRANSMISSION REVENUE ADJUSTOR (TRA)

TARIFF

PERMANENT

Effective Date: November 1, 2013

APPLICABILITY OF NETWORK TRANSMISSION REVENUE ADJUSTOR (TRA)

Applicable to all customers that receive service under SWTC's Network Transmission Service Tariff.

TERMS AND CONDITIONS OF TRANSMISSION REVENUE ADJUSTOR (TRA)

The TRA adjusts SWTC's monthly Network Transmission Service Revenue Requirement and its monthly Mohave 2 Network Transmission Service Revenue Requirement (collectively, the "NTS Revenue Requirements") in the event of either an addition or the termination of a long term point-to-point transmission service agreement (Firm Point-To-Point Contract), defined as a firm (i.e., includes a monthly capacity charge), non-energy based, point-to-point contract that is or was of a term one year or longer.

In the event that an additional Firm Point-To-Point Contract is entered into, the Company's monthly NTS Revenue Requirements in effect at the time the contract takes effect will be adjusted downward. In the event of a termination of a Firm Point-To-Point Contract, the monthly NTS Revenue Requirements in effect at the time service is terminated will be adjusted upward.

Only those revenues derived from the actual transmission service component of a Firm Point-To-Point Contract shall be used in calculating the TRA adjustment. System Control and Load Dispatch revenues and any other Ancillary Service revenues associated with the Firm Point-To-Point Contract(s) will not be included in the calculation of the TRA adjustment.

The Company's monthly NTS Revenue Requirements are stated in Exhibit A of its Network Transmission Service Tariff. In the event of the addition or termination of a Firm Point-To-Point Contract, SWTC will file a revised Exhibit A that reflects the monthly NTS Revenue Requirements as adjusted by the TRA along with the contract

Exhibit GEP-7

documentation and calculations supporting the revised revenue requirements. The Network Transmission Service Tariff with the revised monthly revenue requirements will be subject to a thirty (30) day Arizona Corporation Commission Staff review period. The revised tariff shall become effective at the end of the thirty (30) day period unless the Commission elects to suspend the revised tariff, in which case it shall become effective upon Commission approval or by operation of law.

The revised monthly NTS Revenue Requirements shall be calculated as follows:

Addition of a Firm Point-to-Point Contract

Revised Monthly Network Transmission Service Revenue Requirement =
current Monthly Network Transmission Service Revenue Requirement minus
monthly revenue from the Additional Firm Point-to-Point Contract*

Termination of a Firm Point-to-Point Contract

Revised Monthly Network Transmission Service Revenue Requirement =
current Monthly Network Transmission Service Revenue Requirement plus
monthly revenue from the Terminated Firm Point-to-Point Contract*

* The revised monthly Mohave 2 Network Transmission Service Revenue Requirement shall be calculated on the same basis, by subtracting or adding the additional or terminated point-to-point contract revenues to the current monthly Mohave 2 Network Transmission Service Revenue Requirement.

EXHIBIT GEP-8

**Southwest Transmission Cooperative,
Inc.**

**Transmission Revenue Adjustor (TRA)
Plan of Administration**

Transmission Revenue Adjustor - Plan of Administration

General Description:

The purpose of the Southwest Transmission Cooperative, Inc. (SWTC) Network Transmission Revenue Adjustor (TRA) is to track changes in AEPCO's firm point-to-point transmission contract revenue and to recover or return increases or decreases in those revenues through an adjustor mechanism applied to the Network Transmission Service and Mohave 2 Network Transmission Service Revenue Requirements.

Key Definitions:

1. Annual Network Transmission Service Revenue Requirement – Annual network transmission service revenue requirement as authorized by the Arizona Corporation Commission in the Company's most recent rate filing, Decision No. [insert].
2. Annual Mohave 2 Network Transmission Service Revenue Requirement – Annual network transmission service revenue requirement related to service under the Mohave 2 contract as authorized by the Arizona Corporation Commission in the Company's most recent rate filing, Decision No. [insert].
3. Monthly Network Transmission Service Revenue Requirement – Annual Network Transmission Service Revenue Requirement divided by 12 and as specified in SWTC's Network Transmission Service Tariff, Exhibit A.
4. Monthly Mohave 2 Network Transmission Service Revenue Requirement – Annual Mohave 2 Network Transmission Service Revenue Requirement divided by 12 and as specified in SWTC's Network Transmission Service Tariff, Exhibit A.
5. Long Term Point-to-Point Transmission Service Agreement (Firm Point-to-Point Contract) - Firm (i.e., includes a monthly capacity charge), non-energy based, point-to-point contract that is or was of a term one year or longer.
6. Network Transmission Service Revenue – Revenues collected under the terms and conditions of SWTC's Network Transmission Service Tariff and as recorded in RUS Accounts 447 and 456.

Exhibit GEP-8

7. Firm Point-to-Point Transmission Service Revenue – Revenues collected under the terms and conditions of SWTC’s Point-to-Point Transmission Service Tariff for Firm Point-To-Point Contract customers and as recorded in RUS Accounts 447 and 456, but not including Ancillary Service Revenues.

8. Ancillary Service Revenues – Revenues associated with services provided by SWTC which are necessary to support the transmission of electric power from a seller to a purchaser given the obligations of control areas and transmitting utilities within those control areas to maintain reliable operations of the interconnected transmission system as defined by the Federal Energy Regulatory Commission (FERC). The FERC identifies six different kinds of ancillary services.

Test Year Data:

Based on the most recent test year data and as ordered by the Commission, initial values to be used for the computation of the revised Monthly Network Transmission Service Revenue Requirement and revised Monthly Mohave 2 Network Transmission Service Revenue Requirement are as follows:

1. Monthly Network Transmission Service Revenue Requirement = [Insert Value]

2. Monthly Mohave 2 Network Transmission Service Revenue Requirement = [Insert Value]

Computations:

The revised Monthly Network Transmission Service Revenue Requirement and Monthly Mohave 2 Network Transmission Service Revenue Requirement shall be calculated as follows:

Addition of a Firm Point-to-Point Contract

The Revised Monthly Network Transmission Service Revenue Requirement = the current Monthly Network Transmission Service Revenue Requirement minus the monthly revenue to be received as the result of service supplied pursuant to the Additional Firm Point-to-Point Contract (but not including Ancillary Service Revenues)*

Termination of a Firm Point-to-Point Contract

The Revised Monthly Network Transmission Service Revenue Requirement = the current Monthly Network Transmission Service Revenue Requirement plus monthly revenue which had been received as a result of services supplied under the Terminated Firm Point-to-Point Contract (but not including Ancillary Service Revenues)*

* The revised Monthly Mohave 2 Network Transmission Service Revenue Requirement shall be calculated on the same basis, by subtracting or adding the additional or terminated point-to-point contract revenues to the current Monthly Mohave 2 Network Transmission Service Revenue Requirement.

ACC Revised Network Transmission Service Tariff Filing Requirements:

In the event of the addition or termination of a Firm Point-To-Point Contract, SWTC will file a revised Exhibit A to the Network Transmission Service Tariff that reflects the revised monthly revenue requirements as adjusted by the TRA along with the contract documentation and calculations supporting the revised revenue requirements. The revised Exhibit A will be subject to a thirty (30) day Arizona Corporation Commission Staff review period. The tariff with its revised Exhibit A shall become effective at the end of the thirty (30) day period unless the Commission elects to suspend it, in which case it shall become effective upon Commission approval or by operation of law.

Compliance Reports:

Six months following the effective date of the first revised Exhibit A pursuant to the TRA, SWTC will file a report containing the following information:

1. The customers and their associated revenues collected under the terms and conditions of SWTC's Network Transmission Service Tariff.
2. The customers and their associated revenues collected under the terms and conditions of SWTC's Point-to-Point Transmission Service Tariff for Firm Point-To-Point Contract customers.

SWTC will file these compliance reports every six months thereafter. In order to provide SWTC with sufficient time to compile the data, the reports will contain data for the twelve month period ended two months prior to the report date.

1 In addition, each report will be accompanied by a certification from SWTC's Chief
2 Executive Officer or Chief Financial Officer that all information provided in the filing is
3 true and accurate to the best of his or her information and belief.

4 **Notification:**

5 Within fifteen (15) days of the Commission's approval of SWTC's revised Network
6 Transmission Service Tariff (or the revised Tariff becoming effective by operation of
7 law), SWTC will provide its Network Transmission Service customers a notice of the
8 revised Monthly Network Transmission Service Revenue Requirement and revised
9 Monthly Mohave 2 Network Transmission Service Revenue Requirement (Exhibit A).

EXHIBIT GEP-9

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

NETWORK TRANSMISSION SERVICE

TARIFF

PERMANENT

Effective Date: November 1, 2013

AVAILABILITY OF NETWORK TRANSMISSION SERVICE

Available to all cooperative associations which are or shall be Class A members of Southwest Transmission Cooperative, Inc. ("SWTC"), including those cooperatives who receive network transmission service through Arizona Electric Power Cooperative, Inc. ("AEPCO"), a Class B member of SWTC, as well as to other Eligible Customers. In addition, SWTC also offers firm and non-firm point-to-point transmission service and ancillary services. All service is subject to the terms and conditions of the Open Access Transmission Tariff ("OATT") filed by SWTC with the Federal Energy Regulatory Commission.

NETWORK TRANSMISSION SERVICE

The Monthly Demand Charge for the Rates and Charges for Network Transmission Service is the product of the Network Customer's Load Ratio Share times the Transmission Revenue Requirement set forth on the attached Exhibit A. As the Monthly Demand Charge is load-based, the actual monthly charge will vary according to changes in the Load Ratio Share of the Network Customer.

In addition to the Monthly Demand Charge, the Network Customer may also be responsible for other charges including, but not limited to, Direct Assignment Facilities charges, any applicable power factor adjustment charges, Ancillary Services charges, applicable study costs and redispatch costs, although the Network Customer may also be entitled to a credit for redispatch costs.

EXHIBIT A

Nov. 1, 2013*

Network Transmission Service:

Transmission Revenue Requirement (Monthly) \$[insert]

Mohave 2 Network Transmission Service:

Transmission Revenue Requirement (Monthly)** \$[insert]

* The stated Transmission Revenue Requirement applies to Network Service provided on and after this date.

** Monthly revenue requirement used to calculate the Mohave Electric 2 discounted Network Transmission Service charge.